

ANNUAL REPORT

2020


Hope
isn't

CANCELLED



paulding putnam
ELECTRIC COOPERATIVE, INC

Your Touchstone Energy® Cooperative 

POWERING OUR MEMBERS' LIVES DURING THE COVID-19 PANDEMIC AND BEYOND



**GEORGE CARTER, PRESIDENT & CEO,
AND JOHN SAXTON, CHAIRMAN OF THE BOARD**

2020 ANNUAL REPORT TO THE MEMBERS

Hope is not cancelled: Keeping lights on today for a brighter tomorrow

Last July, I wrote my monthly article for our magazines and mentioned that through the 80-plus year history of electric cooperatives, three symbols stand clear: hope, kindness, and love. That is the cooperative spirit and legacy. Over 80 years ago, people hoped electricity would come to them, but it took more than just hope. It took dedication and commitment. This dedication and commitment were not just from the co-op employees; it came from the membership as well.

Back in the late 1930s and through the war years, it took a lot of perseverance to continue with rural electrification. The takeaway? There is always hope for a brighter tomorrow. There should always be a commitment to be kind to one another, and you cannot come together as a cooperative without love — nor without the desire to assist and help each member. Those simple ideals are the cooperative foundation.

2020 was a difficult year for your cooperative. Employees and their families were impacted by the COVID-19 pandemic. The cooperative office was closed for periods of time.

Employees worked from home. In short, there were many challenges. However, because of the hard work and dedication of PPEC's employees and the strong commitment from your board of trustees, much was accomplished.

The cooperative did not have a rate increase in 2020. Wholesale electricity prices were stable and only increased by a little more than 2% from 2019. Overall, billings to members were consistent from the prior year, without any major changes. Cooperative expenses were held below budget. The decrease in expenditures were due in most part to the pandemic, which meant much less travel for trainings and meetings.

***"For the past four years,
we have been under
the 100-minute [outage]
goal; In 2020, the total
was 59 minutes."***

As with any business, sales growth is very important. During the past year, the cooperative saw a 1% increase in membership (more customers); however, due to weather and the pandemic, sales decreased by just over 1%. Electric sales at your cooperative are still tied to weather. Cold winters and hot summers drive up sales, which typically impacts our residential members the most. We saw

a decrease in residential sales by over 2% (4 million kilowatt-hours) and an overall kilowatt-hour decrease of over 5 million.

PPEC completed many of our strategic goals during the year, which related to improving service reliability. Although the year was challenging, the cooperative invested more than \$6 million back into our electric plant through facility repairs and replacements. Improving reliability became even more critical during the pandemic, as many more people were spending time at home, working from home, and home schooling. During the year, we replaced 528 old and rotten poles, rebuilt or replaced 21 miles of old electric lines, and repaired two substations (Fort Brown and Continental). We completely rebuilt the Cecil Substation.

The Cecil Substation is part of both our construction work plan and our substation upgrade and rebuild plan. In recent years, we have upgraded the Baseline Substation, Fort Brown Substation, Latty Substation, and Ottoville Substation; the Seiler and Hessen substations were upgraded and converted to a higher transmission voltage. These improvements have not been cheap, but they have greatly improved our service to all members throughout our service territory. These upgrades have allowed us to meet the growing needs of our members and be ready when new members come on to our system.

Better still, the rebuild at Cecil Substation allowed us to cost effectively upgrade two additional substations. We have transferred the existing Cecil Substation to the Kalida Substation, which had seen growth in recent years so the existing transformer was nearing its capacity. By moving the Cecil transformer, we got a larger transformer to meet the needs of the Kalida area for years to come. Next, the existing Kalida transformer moved to the Antwerp Substation. The transformer at Antwerp was old, at capacity, and ready to be retired. By moving the Kalida transformer into Antwerp, we gained years of service capacity. These changes will allow for greater backfeed capacity to neighboring substations — **meaning shorter duration of outages** — should that need arise.

The results of all this work is lower outage numbers for all of us members. The pandemic has seen the need for greater service reliability as more and more people work and learn from home. Your cooperative is committed to meeting the needs of the membership by ensuring the highest level of service reliability. We have a goal for outage minutes per member per year: less than 100 outage minutes (excluding extreme storms or events). For the past four years, we have been under the 100-minute goal; in 2020, the total was 59 minutes.

Capital credits are a foundation of cooperatives and provide the backbone of the cooperative principle, "Members' Economic Participation." Your cooperative has a long history of retiring capital credits back to the membership. Capital credits are each member's investment in the cooperative. It's the equity of the cooperative, and it is what makes your cooperative financially strong. **In 2020, the cooperative returned over \$2.2 million back to the membership through capital credits retirements. This includes \$1.5 million applied directly to member bills in December.** This payment directly lowered member bills and is a clear sign of your ownership of the cooperative.

"With more and more members staying home during the pandemic, communication became a major concern."

PPEC is a capital-intensive business, meaning it takes a lot of money to operate (for example, the \$6 million invested directly into our facilities serving members during 2020). Without the members' economic participation, additional debt financing would be necessary, which could have an impact on rates. Balancing the debt-to-equity mix is a big challenge for the board and management, which is why it's a key strategic goal of the cooperative.

With more and more members staying home during the pandemic, communication became a major concern. For a large part of the year, our office lobby was closed. This put additional strain on our member service representatives to answer a large volume of phone calls. Typical in-person meetings were done electronically. The cooperative employees had to adapt to this changing environment and use new communication platforms such as WebEx and Microsoft Teams. Even board meetings were moved to a virtual format using Microsoft Teams. Through all these challenges, our employees and board members persevered and continued to meet the needs of the members and cooperative. We are very thankful to have a dedicated team.

The cooperative also worked hard on its communication plan during the year to keep members up to date on activities and local news. Social media engagement surged with more than 600 new members following our social media outlets like Facebook.

Currently, we have 6,300 users following us on at least one social media platform — this is nearly half of our total members served! These social platforms allow us to transfer information directly to members in a fast, convenient method.

Unfortunately, cybercrime greatly increased during the year due to the pandemic. That said, your cooperative is committed to keeping member information safe and keeping our electric system secure from hackers. Just a few years ago, we didn't have a cyber budget; today, we have an information technology department. This department is critical to keeping members' information safe and keeping our employees moving forward with the latest technology to improve job performance and efficiency. PPEC receives thousands of hacking attempts from around the world on a weekly basis. This past year, we installed new encryption software and added a disaster recovery plan site to help ensure cybersecurity needs are met. Members can rest assured their data is safe.

"Social media engagement surged, with more than 600 new members following our social media outlets like Facebook."

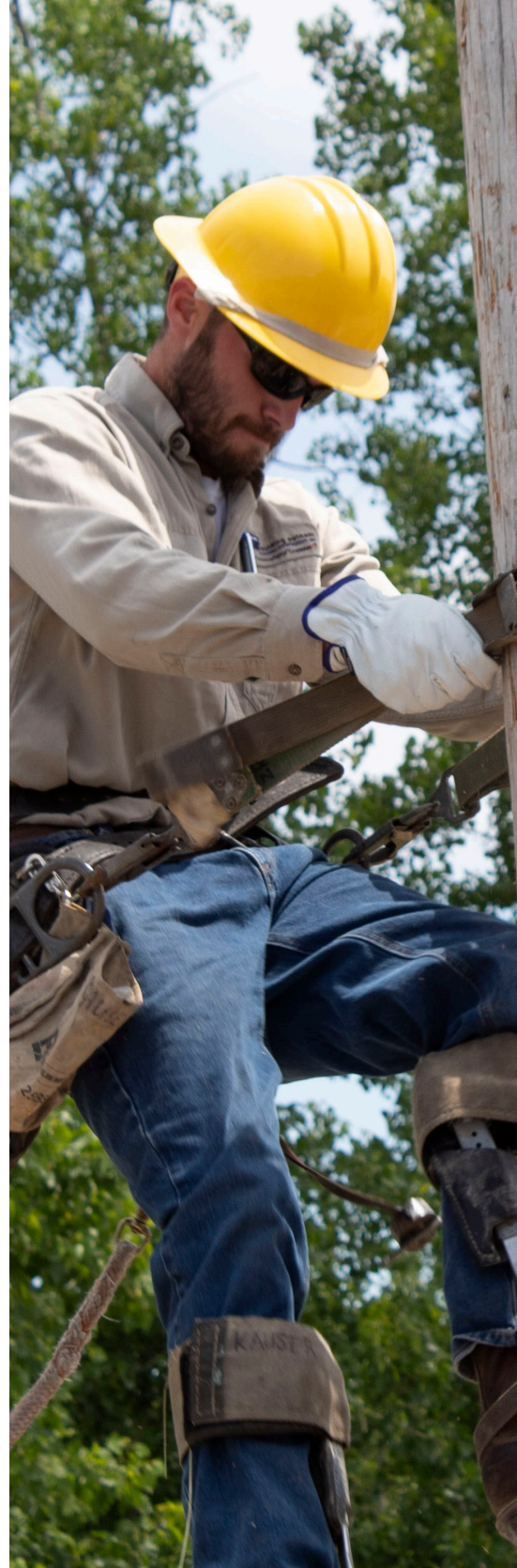
We can reflect on this past year with a feeling of great accomplishment; however, we believe 2021 will be even brighter. Through the pandemic, your cooperative continued to perform at a high level, meeting both financial and reliability goals. We look at the future with higher hopes and dreams, wishing all our members health and safety. Thank you to all members for your caring patience through the year, and may you have a brighter tomorrow ahead.

George Carter

GEORGE CARTER, PRESIDENT & CEO

Dr. John Saxton

DR. JOHN SAXTON, CHAIRMAN OF THE BOARD



"The most important things are not cancelled. How we go forward and treat strangers, friends, and family will continue to define us."

— George Carter, President & CEO



DR. RONALD BLACK
SECRETARY - TREASURER



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ELECTRIC COOPERATIVE, INC

Your Touchstone Energy® Cooperative 

2020 TREASURER'S REPORT

Although the cooperative had to deal with the COVID-19 pandemic the past year, overall, the financial condition of your cooperative is outstanding. The cooperative employees continued to perform at a high level, ensuring financial stability. As with most companies, we saw a slight decrease in our business. This resulted in lower-than-budgeted sales of electricity. However, due to reduced expenses, margins for 2020 were above budget projections.

The cooperative earned just over \$5.6 million in total margins for the year. This exceeded budget expectations by \$1 million and was slightly above the prior year by \$500,000. The main drivers for the difference were lower overall sales of energy. Kilowatt-hour sales declined in 2020 by over 1.3% from the prior year and were 2.4% below budget.

The decrease in sales is due to both weather and impacts of COVID-19. A mild winter resulted in lower energy sales, while pandemic shutdowns resulted in lower sales to our large power members. These combined forces resulted in lower overall sales.

The cooperative did not have a rate increase in 2020. Our wholesale power cost (from Buckeye Power) increased in 2020 by just over 2%. Wholesale power costs are the largest expense and represent 70% of the cooperative's total cost to serve members. In recent years, we have seen large increases in the cost of transmission service, which is part of our wholesale cost. This

represents the cost to transport the electricity generated at our Cardinal Power Plant to our local substations.

Member's equity in the cooperative remained at just over 64%. This represents the members' ownership, or capital credits. This ownership is known as the cooperative principle of "Members' Economic Participation." All of us contribute equity into the cooperative to fund electric plant growth (new poles, wires, substations, etc.). By contributing this equity, the co-op requires less long-term debt to fund investment in plant. It is a difficult balance to ensure equity isn't too high or debt isn't too high. Your cooperative works hard to be sure members are treated fairly and rates are balanced.

The cooperative is proud that we can return this member investment annually through our capital credits retirement. **December 2020 saw the largest retirement in co-op history — nearly \$2.2 million was returned to the membership.** This included over \$1.5 million applied directly to member bills in December. This capital credits retirement is your tangible proof of ownership in the cooperative.

The cooperative management and board believe cost control is very important to managing the rates all members pay. In 2020, the cooperative budgeted for lower expenses than the prior year. The expenses, due to reduced activity because of the pandemic, were \$5.1 million. This is well below the budget of \$5.9 million and below the \$6 million budget in 2019. Nationally, cooperatives incur about \$0.2533 per kilowatt-hour (kWh) in controllable

expenses; your cooperative operates at \$0.01669 per kWh, or about 66% that of other cooperatives. This helps to keep your rates low.

Plant investment continues to be a high priority. The cooperative invested over \$6 million in new poles, wires, and equipment to rebuild existing lines serving your homes and businesses. This is our investment in the membership and the future of the cooperative. One of the major projects completed during 2020 was the rebuilding of our Cecil Substation, costing just over \$2 million. By rebuilding the substation, service will be greatly improved, and overall reliability greatly enhanced. **This upgrade will allow for a greater backfeed capacity to the Antwerp Substation, the Latty Substation, and the Fort Brown Substation — all of which reduces outage time for members.**

Overall, I am very pleased to report on the financial strength of the cooperative. PPEC remains financially strong and able to meet the future needs of cooperative members. The accounting firm of Bashore, Reineck, Stoller and Waterman, CPAs (BRSW), has audited the financial records of the cooperative as of December 31, 2020, and issued a "clean" or unqualified opinion of the financial statements. The audited financial statements may be reviewed at the office during normal business hours.

Dr. Ronald Black

Dr. Ronald Black, Secretary-Treasurer

PAULDING PUTNAM ELECTRIC COOPERATIVE, INC.

Balance Sheet

UNAUDITED

For the year ending Dec. 31, 2020

Assets

Plant Property and Investments:	
Total Plant	\$ 104,945,916
Construction work in progress	\$ 1,043,337
Accumulated Depreciation	\$ (24,354,844)
Net Plant	\$ 81,634,409
Investments:	
Invest. in Assoc. Org. - Patronage Capital	\$ 18,330,913
Associated Organization	\$ 2,407,354
Total Plant and Investments	\$ 102,372,676
Current Assets and Debits:	
Cash	\$ 1,412,109
Temporary Investments/Special Deposits	\$ 1,622,275
Receivables	\$ 1,957,407
Merchandise Inventory	\$ 416,261
Other Current Assets	\$ 391,408
Total Current Assets and Debits	\$ 5,799,460
Deferred Debits	\$ 157,286
Total Assets and Debits	\$ 108,329,422

Liabilities and Equity

Current Liabilities and Credits:	
Accounts Payable	\$ 3,748,199
Short-term Notes Payable	\$ 3,200,000
Consumer Deposits	\$ 184,025
Other and Accrued	\$ 2,062,230
Total Current Liabilities and Credits	\$ 9,194,454
Noncurrent Liabilities and Credits:	
Long-term Debt	\$ 29,419,859
Deferred Liabilities and Credits	\$ 403,916
Total Liabilities and Credits	\$ 39,018,229
Equity:	
Operating Margins Prior/Other	\$ 6,927,778
Memberships	\$ 67,052
Patronage Capital	\$ 62,316,363
Total Equity	\$ 69,311,193
Total Liability and Equity	\$ 108,329,422

Statement of Operations

UNAUDITED

For the year ending Dec. 31, 2020

Revenue:	
Sales of Electricity	\$ 40,881,652
Interest Income	\$ 85,311
Other Income	\$ 26,714
Capital Credits	\$ 1,444,315
Total Revenue	\$ 42,437,992
Expenses:	
Cost of Purchased Electric	\$ 25,807,680
Cost of Maintenance on Lines, Poles, Rights-of-Ways, etc.	\$ 2,501,590
Cost of Billing and Consumer Records	\$ 478,875
Cost of Member Services	\$ 514,114
Cost of Administration and Office Operations	\$ 1,748,126
Depreciation Expense	\$ 3,296,921
Business Taxes	\$ 1,237,540
Interest on Long-Term Debt	\$ 1,289,827
Interest on Current Debt	\$ 51,130
Total Expenses	\$ 36,925,803
Net Patronage Capital or Margins	\$ 5,512,189

Please note these financials are pre-audit, due to printing time constraints. A complete copy of the Audit Report as presented by the firm of Bashore Reineck Stoller & Waterman, Inc., certified public accountants of Paulding, Ohio, will be available for examination at the cooperative's office during normal business hours.



KEEPING YOUR LIGHTS ON,
no matter what.



PAULDING PUTNAM ELECTRIC CO-OP

2020 Official Annual Meeting Minutes — March 21, 2020

The Annual Meeting was held at Paulding Putnam Electric Cooperative, Inc.'s headquarters building in Paulding, Ohio. Dr. John Saxton, Board Chairman, called the meeting to order at 10:00 a.m. The meeting was held as a video conference due to restrictions on meeting size issued by the state & federal governments. The meeting was being broadcast on the internet via Facebook Live. Chairman Saxton began the meeting by reciting the Pledge of Allegiance.

Chairman Saxton noted the meeting notice had been mailed to all members on February 26, 2020, and this notice contained the meeting agenda. He stated he was dispensing with the reading of the notice as it had been certified as mailed to all members. He stated the agenda would be approved as mailed.

Chairman Saxton noted the minutes to the meeting held on March 16, 2019, had been mailed to all members in the recent issue of *Ohio Cooperative Living* and *Indiana Connection* magazines. He dispensed with the reading of the minutes as they were certified as mailed to all members, and the minutes would stand as approved as mailed.

Mr. Dangler gave the Treasurer's Report. He stated his written report appeared in the cooperative's Annual Report, and members could obtain a copy at the office or review the audit report upon request. He further stated the audited financial report was completed by the local firm of Bashore, Reineck, Stoller & Waterman. The CPA firm had issued an unqualified or clean audit opinion.

Chairman Saxton began his remarks by thanking the membership for participating in the video conference. Chairman Saxton took some time to review the board's strategic responsibilities and to discuss the board's role in strategic planning.

Mr. Carter gave the President's report. He stated the cooperative had invested in improving the electrical system, and those investments were improving reliability and reducing outage time. Mr. Carter reviewed construction work that had been completed in 2019 and explained some of the bigger projects planned for 2020. He stated no rate increase was planned for 2020; however, he explained increases may be seen in the wholesale power cost adjustment (WPCA) as our transmission cost would likely increase 2% or 3% during 2020.

Mr. Carter stated the scholarship judging had recently been completed by Defiance College and the results would be posted on the cooperative website.

Mr. Carter said the interviews for the Youth Tour had been delayed. Following the interviews, the winners would be announced and posted on the website.

Mr. Carter was called upon to present the trustee election results. Three Districts (1, 6, and 9) were up for election: Trustees Joseph Kohnen (District 1), Dr. John Saxton (District 6) and Dr. Ronald Black (District 9) were re-elected by affirmation.

There being no further business to come before the meeting, Chairman Saxton declared the meeting adjourned.

Cooperative News



Renee Boss (Member Service Manager)
Retired March 2020



Dennis Clark (Lineman)
Retired July 2020



Ted Slusser (Operations Manager)
Retired January 2021

Our hope, love, and kindness billboards/media campaign ran in June 2020 during the pandemic.

Hope

isn't **CANCELLED**

Visit PPEC.coop for Good News



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Love

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Kindness

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NON-PROFITS: APPLY FOR FUNDING AT PPEC.coop



Caring for our community since 1935.



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Our Operation Round Up program gives PPEC members the option of having their monthly electric bill rounded up to the nearest dollar, with those few extra cents going to benefit people and organizations in need within the co-op's service territory. This is a true neighbors helping neighbors community empowerment program! To learn more, find applications, or sign up to donate, visit www.ppec.coop.



VIRTUAL ANNUAL MEETING AGENDA:

Call to Order

Board Chairman — Dr. John Saxton

Approve Minutes From Last Year

Board Chairman — Dr. John Saxton

Treasurer's Report

Board Secretary-Treasurer — Dr. Ron Black

Chairman's Report

Board Chairman — Dr. John Saxton

President's Report

CEO — George Carter

Trustee Election Results

CEO — George Carter

Code of Regulations Results

Board Secretary-Treasurer — Dr. Ron Black

Introduction of New Board Member(s)

Board Chairman — Dr. John Saxton

New/Old Business

Adjourn

